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AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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July 16, 2003

TO: Supervisor Yvonne Brathwaite Burke, Chair  
Supervisor Gloria Molina  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley   
Auditor-Controller

SUBJECT: **DEPARTMENT OF CHILDREN AND FAMILY SERVICES  
FAMILY PRESERVATION RATE STUDY**

At the request of the Department of Children and Family Services (DCFS), we engaged Thompson, Cobb, Bazillo & Associates, Certified Public Accountants (TCBA) to review the rate structure by which the DCFS compensates agencies who provide Family Preservation services. DCFS' objective was to determine if the rate structure fairly compensated agencies and, if appropriate, make recommendations for adjustments to the current structure or suggest alternatives. To accomplish this objective, TCBA reviewed fiscal year 2002 financial data for five agencies who serve different geographic areas of the County.

**REVIEW SUMMARY**

Currently, DCFS reimburses agencies a flat monthly rate of \$800 per family for Base Rate services and a fixed hourly rate for each unit of Supplemental Services that the agencies provide. TCBA found that, on average, this rate did not allow agencies to recover their costs. Specifically, the agencies' costs per family were \$242 (30%) higher than the \$800 per family rate paid by DCFS. Conversely, TCBA found that agencies over-recovered their costs for Supplemental Services by 13%.

TCBA recommended that the Department replace the current rate structure with a model that reimburses agencies for actual costs. TCBA evaluated three alternatives to the current model, including a cost reimbursement model, a fee for service model, and maintaining the current model with some adjustments.

**REVIEW OF REPORT**

TCBA discussed its report with DCFS management. DCFS will evaluate the options and incorporate any change to the current model in the program's next contract cycle.

We have attached a copy of the report for your review.

JTM:DR:JK

Attachment

- c: David E. Janssen, Chief Administrative Officer
- David Sanders, Ph.D., Director, Department of Children and Family Services
- Violet Varona-Lukens, Executive Officer
- Public Information Office
- Audit Committee
- Commission for Children and Families

**COUNTY OF LOS ANGELES  
AUDITOR-CONTROLLER**

**DEPARTMENT OF  
CHILDREN AND FAMILY SERVICES**

**Community Family Preservation Network Agencies  
Special Rate Study**

June 2003

*Submitted by*

**TCBA**

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June 30, 2003

Mr. J. Tyler McCauley  
County of Los Angeles Auditor-Controller  
500 West Temple Street, Room 525  
Los Angeles, CA 90012-2766

Dear Mr. McCauley:

Thompson, Cobb, Bazilio & Associates, PC (TCBA) is pleased to present the attached final report on our Special Rate Study of Community Family Preservation Network Agencies, whom are under contract with The County's Department of Children and Family Services (DCFS) to provide Family Preservation Program (FPP) services.

As discussed in the attached report, we believe that the rate structure currently in place to reimburse agencies for providing FPP services could be improved to more fairly compensate agencies for their actual cost of providing such services.

We would like to thank DCFS staff and Lead Agency personnel for their cooperation and support throughout this study. If you should have any questions, please feel free to call me at 310 792-7001.

Respectfully,

  
Michael J. deCastro  
Principal

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## Introduction and Background

The Department of Children and Family Services (DCFS) has the primary responsibility to protect the children of Los Angeles County (the "County") from abuse, neglect and exploitation. In an effort to ensure that more children remain in their homes, State legislation (AB546) was adopted to allow counties to use a part of their child welfare funding for a program to prevent or limit unnecessary placement of children and youth in out-of-home care. In 1991, the County established the Family Preservation Program (FPP). The FPP is an integrated, comprehensive approach to strengthening and preserving families who are at risk of or are already experiencing problems in family functioning. The goal of the FPP is to ensure children have the opportunity to grow up in a safe and nurturing environment, while remaining in their homes and communities.

The DCFS administers the FPP through a unique interagency, public-private partnership program model in which DCFS maintains administrative authority over the program and works in cooperation with other County departments and community-based organizations, called Lead Agencies. Lead Agencies provide services under contract with the County. Lead Agencies will subcontract with a network of other community service providers, as necessary, to offer family preservation services to families. Together, these contracted agencies are referred to as the Community Family Preservation Network (CFPN).

The DCFS developed the FPP to include a comprehensive menu of services including, but not limited to, in-home outreach counseling sessions, parent training, teaching and demonstration homemaker training, and other self-help support groups. A Multidisciplinary Case Planning Committee (MCPC) that typically is comprised of individuals from the DCFS, the Lead Agency, the Department of Mental Health, and the family members, will collectively develop a service plan to address the problems of each family entering the FPP.

From the program's inception through July 2001, the Lead Agencies were compensated at a flat monthly rate for each family receiving FPP services, depending on the Service Level assigned to each family. This fee structure, known as the capitated rate model, was similar to the compensation models used by Health Maintenance Organizations (HMO's) and the insurance industry at the time the DCFS established the FPP. The flat monthly rates represented the average expected costs of providing services to a family at a particular Service Level. Actual costs of providing services to any one family may have been less than or greater than the service level rate at which Lead Agencies were reimbursed.

In November 2000, the Los Angeles County Auditor-Controller released a report on its review of the FPP. The purpose of the review was to evaluate the FPP cost model, implementation strategy and program operations. In regards to the cost model, the

Auditor-Controller concluded that the compensation received by Lead Agencies might not equate with the costs being incurred to provide certain services. The Auditor-Controller recommended that the DCFS review the capitated rate model and consider the establishment of a fee-for-service rate structure.

In the Spring 2001, the DCFS issued a Request for Proposal (RFP) for FPP services for a two-year term beginning July 1, 2001 with a one-year option. In response to the Auditor-Controller's review, and effective with the contracts resulting from this RFP, DCFS replaced the capitated rate model with a hybrid flat rate and fee-for-service model. Below is a description of this compensation rate model:

- ✓ **A Base Rate of \$800 per family, per month** - This Base Rate was developed by DCFS based on a review of actual costs for a sample of CFPN agencies for the fiscal year ending June 30, 2000. The rate of \$800 per family per month was developed to reimburse agencies for the provision of 1) four In-Home Outreach counseling sessions; 2) attendance at the MCPC; 3) clinical direction; 4) crisis intervention services; and 5) indirect services. Crisis intervention is a service that requires a three-hour response time, 24 hours a day to resolve emergent issues/situations, which threaten the stability of the home and/or safety of the children to remain in the home. The crisis intervention responses are in-person responses to ensure the safety and well-being of the family. The DCFS required that at a minimum, agencies provide Base Rate services to all families entering the FPP.
- ✓ **Per unit/hourly rates for Supplemental Services** - DCFS reimburses Lead Agencies for each unit/hour of supplemental services provided. The amount reimbursed is a fixed hourly rate, which is listed on a supplemental service rate schedule published by the DCFS. DCFS developed these rates based on actual costs from a sample of CFPN agencies, and associated subcontractors, for the fiscal year ending June 30, 2000.

The DCFS committed to the Lead Agencies to reassess the "Base and Supplemental Rate Model" after one year to determine whether the model fairly compensates the Lead Agencies for the services they provide. In the Spring 2002, the Department convened a Lead Agency Working Group, consisting of five Lead Agencies, to assemble the financial data necessary for this assessment. In March 2003, Thompson, Cobb, Bazilio & Associates, PC (TCBA) was contracted by the Auditor-Controller's office to perform this assessment.

## Objectives, Scope and Methodology

The primary objectives of our review were to:

1. Determine and assess if the current cost model and rate structure fairly compensates Lead Agencies for services provided.
2. Develop recommendations regarding alternative compensation models and related monthly or per unit rates.

To accomplish our review objectives, we reviewed fiscal year 2002 financial data related to the FPP at the following five Lead Agencies. The respective Geographic Service Areas (GSA's) serviced under the FPP Contract is indicated in parentheses:

- ✓ Bienvenidos Children's Center, East Los Angeles - (GSA-1 & GSA-16)
- ✓ Children's Center of Antelope Valley, Lancaster - (GSA-9)
- ✓ City of Long Beach, Long Beach - (GSA-4)
- ✓ East Valley Boys & Girls Club, Baldwin Park - (GSA-20)
- ✓ Youth Intervention Program, Los Angeles - (GSA-6 & GSA-22)

The following summarizes the procedures performed to conduct our review:

1. We interviewed appropriate officials of the Lead Agency Working Group to obtain an understanding of the current compensation model and rate structure.
2. We obtained and reviewed the General Ledgers, the Audited Financial Statements, if any, the Statement of Received, Expended and Unexpended (Form H-10) for the Fiscal Year Ended June 30, 2002 and Organization Charts identifying the key personnel for the Agency's programs.
3. We interviewed appropriate officials of the Lead Agency Working Group to obtain an understanding of the Lead Agency's operations and organizational structure and, in particular how the FPP fits into the overall scheme of its' activities.
4. We interviewed appropriate officials to obtain a detailed understanding of each Lead Agency's Accounting Systems and more specifically, how the various cost elements attributable to FPP and other programs are accounted for.



5. We obtained and reviewed the schedule of actual costs incurred for the Fiscal Year Ended June 30, 2002, where costs were broken out by direct labor, direct support labor, administrative labor, fringe benefits, other direct cost, indirect cost, and subcontractor costs. This schedule was also segregated by Base Rate and Supplemental classifications. We further recalculated the schedule and verified for mathematical accuracy.
6. We agreed the schedule of actual costs incurred to the General Ledger and/or Audited Financial Statements.
7. We agreed the names of the employees on the schedule of costs incurred listed under the direct labor, direct support labor, and administrative labor to the organizational chart.
8. We recalculated and reviewed the fringe benefits for reasonableness.
9. We reviewed the other direct costs for reasonableness.
10. We analyzed and reviewed the method utilized to allocate indirect cost expenditures, which benefits all programs offered by each Lead Agency in accordance with OMB Circular A-122 or OMB Circular A-87.
11. We judgmentally selected the payments from the subcontractors and agreed the payments to the invoices received for accuracy.
12. We interviewed the appropriate officials to obtain an understanding of the Agency's billing practices to DCFS and the methodology used for developing the numbers of families served.
13. We obtained from DCFS the billings for the Fiscal Year Ended June 30, 2002, segregated by Base Rate and Supplemental classifications.
14. Based on the billing analysis of the Base Rate, we developed a "full-cases served concept" to determine the number of families served by each Lead Agency.
15. We calculated the average cost per family served based on the actual costs incurred under the Base Rate and Supplemental services and the number of families served.
16. We compared the audited actual cost rates with the current rate structure to obtain variances.

17. We discussed and obtained explanations for the significant variances with the appropriate officials of the Lead Agency Working Group members.

## RESULTS

### Base Rate Analysis

Lead Agencies are reimbursed a flat monthly rate of \$800 per family for Base Rate services. The Base Rate services to be provided for each family include 1) four In-Home Outreach sessions; 2) attendance at the MCPG; 3) clinical direction; 4) crisis intervention services and 5) indirect services.

To perform our analysis, we obtained the Base Rate revenue billings for the fiscal year ending June 30, 2002 from the DCFS Information Technology Services unit in Lakewood, CA. Since the Base Rate billings for FPP families is based on starting and ending dates during the month, we developed a "full-cases served concept" for comparison purposes to accommodate partial month billings by dividing the total Base Rate billing amount by \$800. We also obtained the actual Base Rate cost data for fiscal year 2002 as allocated by the five Lead Agency Working Group members and divided this total cost amount by the full cases served.

As shown in the table below, the average cost of the five Lead Agency Working group members for providing Base Rate services ranged from \$913 to \$1,336 per family per month. These incurred cost amounts exceed the \$800 reimbursement per family per month. On average, the cost per family is \$242 higher (30%) than the \$800 per family billing rate allowed under the current cost model.

The following table represents the allocation of Base Rate costs by Lead Agency:

<u>Agency</u>	<u>Actual FY-02 Costs</u>	<u>Full Cases Served</u>	<u>Average Cost Per Case</u>	<u>Variance to \$800 Rate</u>	<u>% Diff. To \$800 Rate</u>
Bienvenidos Children's Center	\$ 583,449	570.22	\$ 1,023.20	\$ 223.20	27.9%
Children's Center of Antelope Valley	460,451	487.64	944.24	144.24	18.0%
City of Long Beach	798,629	597.62	1,336.35	536.35	67.0%
East Valley Boys & Girls Club	409,588	448.66	912.91	112.91	14.1%
Youth Intervention Program	1,493,014	1,489.96	1,002.05	202.05	25.3%
<b>TOTAL</b>	<b>\$ 3,745,131</b>	<b>3,594.10</b>	<b>\$ 1,042.02</b>	<b>\$ 242.02</b>	<b>30.3%</b>

Based on our analysis and inquiries with the five Lead Agencies, the cause for the under recovery of Base Rate costs is primarily attributed to the additional costs incurred related to 1) time spent preparing and attending the MCPC conference, 2) administrative (indirect services) costs i.e. phone calls and correspondence with each family, and 3) higher compensation costs for providing 24-hour on-call crisis intervention services.

### Supplemental Services Analysis

To perform our analysis of the Supplemental services, our methodology was essentially the same as our analysis of Base Rate services, as discussed above. As shown in the table below, the cost of providing Supplemental services was 13% lower than the revenue received.

<u>Agency</u>	<u>Actual FY-02 Costs</u>	<u>Full Cases Served</u>	<u>Avg. Cost Per Case</u>	<u>Avg. Billing Per Case</u>	<u>Billing Rate Variance</u>	<u>% Diff. To Billing Rate</u>
Bienvenidos Children's Center	\$ 69,560	570.22	\$ 121.99	\$ 167.59	\$ (45.60)	-27.2%
Children's Center of Antelope Valley	99,613	487.64	204.28	200.03	4.25	2.1%
City of Long Beach	223,872	597.62	374.61	412.29	(37.68)	-9.1%
East Valley Boys & Girls Club	260,290	448.66	580.15	716.24	(136.09)	-19.0%
Youth Intervention Program	245,731	1,489.96	164.92	182.96	(18.04)	-9.9%
<b>TOTAL</b>	<b>\$ 899,066</b>	<b>3,594.10</b>	<b>\$ 250.15</b>	<b>\$ 287.59</b>	<b>\$ (37.44)</b>	<b>-13.0%</b>

Fiscal year 2002 billings for Supplemental services provided by the five Lead Agencies reviewed totaled \$1,033,646. Approximately \$877,000 or 85% of Supplemental services provided by the five Lead Agencies was related to the following services:

- Therapeutic Day Treatment -23%
- Counseling - 15%
- In-Home Counseling (BA) - 11%
- Homemaking - 10%
- In-Home Counseling (MSW) - 9%
- Child Focused Activities - 9%
- Transportation - 8%

Based on our analysis and inquiries with the five Lead Agencies reviewed, the cause for the over recovery of Supplemental costs is primarily attributed to the following:

**Therapeutic Day Treatment (TDT)** - a service provided to Probation youth clients and billed at a flat rate of \$1,027 per month per family. The average cost to the five Lead Agencies for providing TDT service is approximately \$900 per month per family or 12% less than TDT revenue received. We noted that those Lead Agencies providing higher levels of TDT services had an overall higher over-recovery of Supplemental costs.

**Homemaking and Child Focused Activities** - in certain instances where group activities are involved, such as parent training, homemaking, and child focused activities, some Lead Agencies are billing for each family per hour that participate in the group activity. However, the cost is based on an hourly rate paid to the counselor or provider of these services. For example, if five families participate in a group activity for one hour, the Lead Agency will bill the DCFS for five hours of service, whereas the Lead Agency's cost is only for one hour of service paid to the counselor or provider.

**Counseling** - in certain instances when Lead Agencies utilize subcontractors to provide counseling services, the hourly rates paid to these subcontractors are lower than the hourly rates billed to the DCFS.

## Conclusions and Recommendations

We believe the current Base Rate service compensation model is unfair because Lead Agencies are not fully recovering their costs for providing Base Rate services. Conversely, we believe the Supplemental service compensation model is more than reasonable because Lead Agencies are recovering on average 13% more than the cost for providing these services.

To remedy this imbalance, we believe that the current rate structure should be replaced with a cost model that reimburses Lead Agencies for their actual cost, no more or no less. Below, we provide recommendations for alternative cost models that we believe will more fairly reimburse Lead Agencies for actual costs incurred.

### Cost Reimbursement-Type Contract

Under a cost reimbursement contract arrangement, each Lead Agency would develop and propose fully-burdened hourly rates for providing services (Base Rate and Supplemental). These proposed rates should include components for direct labor, indirect labor, general & administrative expenses and overhead costs. Proposed rates should be subject to audit to verify the cost proposed. If subcontractors are used, subcontractor rates should be proposed at cost, with no mark-up. An important criterion for the proper utilization of this type of cost model is the provision of complete

descriptions of service components in the RFP. A major advantage of this option is that it provides the most equitable level of compensation for services as it allows for flexibility to accommodate the differing cost structures of individual service providers. In addition, this cost model may afford the best opportunity to service more FPP families since the Lead Agency will have the flexibility in providing Base Rate services to families at a level it deems necessary given the family situation. A potential challenge to implement this cost model may be that some Lead Agencies' accounting systems may not be sophisticated enough to develop accurate cost information by the type of service provided.

#### **Complete Fee for Service Rate Structure**

Under this scenario, the current \$800 base rate flat fee would be eliminated and replaced with fee for service rates similar to the current supplemental fee schedule. As part of a conversion to a complete fee for service arrangement, fee schedules for all services should be completely analyzed and adjusted to reflect the actual cost experience for each type of service provided. As with a cost-reimbursement model, the provision of thorough descriptions of service components is vital. While this model may not provide as much individual flexibility as the cost-reimbursement option, it does provide an equitable level of compensation for services. In addition, the establishment of prices for current base rate prices may be a difficult process since Lead Agencies were unable to readily provide this level of detail during our review.

#### **Maintain the Current Rate Structure with an Increase to the Base Rate Flat Fee**

Under this alternative, the current composite Base Rate and Supplemental rate schedule would be continued following a review and analysis to better reflect actual cost experience. Based on our review of fiscal year 2002 costs, the base rate flat fee would be increased to a range of \$950 - \$1,050 per month. Supplemental service rates should be adjusted to reflect actual cost experience. We believe that the fee rate adjustments should be done only after a review of the cost for the second year of the contract ending on June 30, 2003 is completed. While this may not be as flexible as other alternatives, this option does promote and encourage the greatest utilization of supplemental services. Also, since all parties are now well accustomed to this rate structure, we believe that the continuation of this cost model would be easier for DCFS to administer.

In addition to the three recommended alternatives discussed above, we also assessed the viability of reverting back to the capitated rate structure. Based on an analysis of applying this model to fiscal year 2002 costs, we found that this compensation method would fall short of adequately compensating service providers, particularly in regards to the provision of supplemental services. Specifically, utilizing the capitated rate would adversely impact two of the five Lead Agencies who provided the highest volume of supplemental services under the current rate structure. We believe that reverting back to this model is not a feasible alternative since it fails to promote accountability for

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providing services. Furthermore, the elimination of the service level concept has rendered this model difficult to implement.